

Historic, Archive Document

Do not assume content reflects current scientific knowledge, policies, or practices.



THE *Demand and Price* SITUATION

BUREAU OF AGRICULTURAL ECONOMICS
UNITED STATES DEPARTMENT OF AGRICULTURE

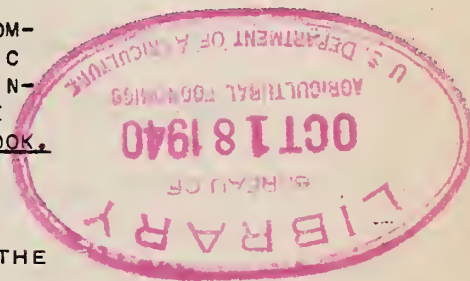
WASHINGTON, D.C.

BAE

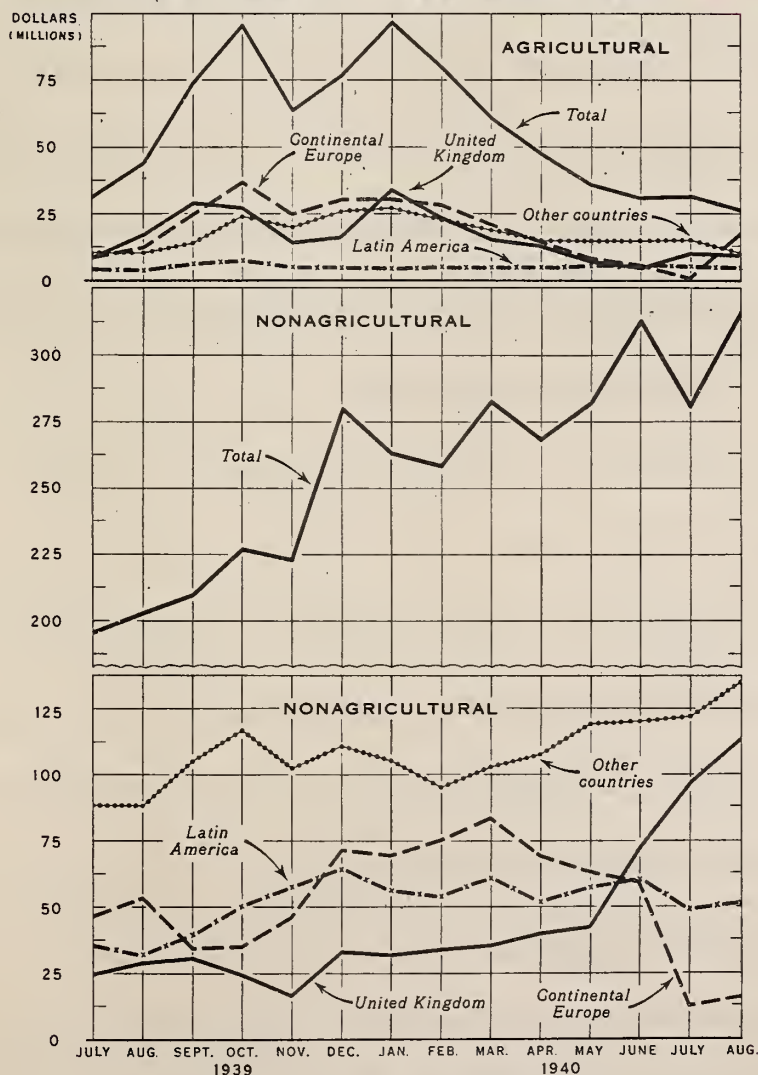
OCTOBER 1940

1941 OUTLOOK ISSUE

THIS ISSUE CONTAINS THE BUREAU'S COMPLETE 1941 OUTLOOK REPORTS FOR DOMESTIC AND FOREIGN DEMAND, PRICES, AND FARM INCOME. THE COMMODITY REVIEWS SUMMARIZE BOTH THE CURRENT AND LONGER-TIME OUTLOOK.



EXPORTS OF DOMESTIC MERCHANDISE FROM THE UNITED STATES, JULY 1939-AUGUST 1940



BASED ON DATA FROM BUREAU OF FOREIGN AND DOMESTIC COMMERCE

U. S. DEPARTMENT OF AGRICULTURE

NEG. 38661 BUREAU OF AGRICULTURAL ECONOMICS

UNITED STATES EXPORTS OF FARM PRODUCTS HAVE BEEN ADVERSELY AFFECTED BY THE EUROPEAN WAR, BUT EXPORTS OF INDUSTRIAL COMMODITIES HAVE BEEN INCREASED.

1941 Outlook Issue

This issue contains the Bureau's complete 1941 outlook reports for domestic and foreign demand, prices and farm income (beginning on page 18). The commodity reviews summarize both the current and the longer-time outlook.

SUMMARY

Outlook for the remainder of 1940

Improvement in general business conditions and consumer purchasing power, which have been resulting in an increase in the domestic demand for farm products in recent months, is continuing. There may be some further gains in industrial activity by the end of the year. The improvement which has occurred since April is reflected in increased employment and industrial workers' incomes. The defense program and the large volume of industrial exports are the principal factors of strength in the situation, furnishing a huge backlog of industrial orders.

There has been some further decrease in exports of farm products, but these exports have been so small in recent months that additional declines are relatively unimportant. Consequently, the improvement in domestic demand has been accompanied by a general strengthening in farm prices. The advance in wholesale prices of domestically produced commodities since August has been only moderate, with the largest gains in prices of industrial raw materials and agricultural products.

With cotton marketings now increasing from a slow start this season, with increased Government loans on wheat, and with a slight advance in the general level of farm prices in October it is probable that income from farm marketings will make somewhat more than the usual seasonal gain.

Outlook for 1941

Domestic consumer demand for farm products in the United States probably will be considerably better in 1941 than on the average in 1940. Industrial activity is expected to be materially higher, influenced by the enlarged defense program and a heavy volume of industrial exports. Production in most important industries has increased during 1940, and the high level of activity reached in the latter part of this year should be generally maintained in 1941, and in some industries will be increased. Employment, industrial pay rolls, and incomes of nonagricultural consumers in general, are expected to be higher in 1941. The resulting improved consumer demand will affect particularly those products which are sold almost entirely in domestic markets, including meats, dairy and poultry products, some fruits, and vegetables.

Export demand for United States farm products, on the other hand, is likely to be even worse in 1941 than it was in 1940. Continental European markets now are almost entirely shut off. British import restrictions on some commodities have been increased over those prevailing in the first part of 1940. Cotton exports are expected to be quite small in 1940-41 compared with the previous marketing year. World supplies of wheat continue large, and Great Britain can obtain all of her needed supplies from the Dominions. Exports of a few commodities, such as dairy products, may be somewhat larger in 1941 than in 1940, but this is not likely to offset the losses applying to other commodities. The outlook for exports might be better if the war in Europe were terminated, although even in that event many conditions would remain unfavorable.

The general level of wholesale prices in the United States is expected to average materially higher in 1941 than in 1940. The forces affecting prices

will be conflicting to an unusual extent. Prices of farm products sold in the domestic market will increase in response to improvement in consumer demand, but unfavorable foreign conditions will continue to affect adversely the demand for some other agricultural commodities, prices of which are now being supported by loan and subsidy programs. The defense program will greatly increase the demand for certain raw materials and semi-finished products, and for skilled and semi-skilled labor. This may result in a general increase in costs and prices in a number of industries not directly affected by the defense program. The situation is different in many respects from that which obtained during the World War, however, with supplies of materials and labor, and plant capacities, apparently sufficient to prevent any runaway price increases.

Cash income from farm marketings is expected to be higher in 1941 than in 1940 because of the prospective increases in prices of some farm products, but this increase in cash income will be partly offset by higher production costs. The increases in cash income from livestock and livestock products is expected to be more pronounced than the increase in income from crops. The trends in farm prices and incomes are expected to be similar, since agricultural production probably will be about the same as or only slightly smaller than in 1940.

DOMESTIC DEMAND

Improvement in conditions affecting the domestic demand for farm products is continuing as the defense program develops. Accompanying the moderate recent gains in industrial activity have been significant increases in industrial employment and pay rolls. Military employment and pay rolls also are expanding rapidly, and by the year end probably will be twice as large as in June.

Funds authorized or appropriated for defense purposes now total nearly 17 billion dollars and contracts have already been placed for about half of this amount. The plant expansion necessary for filling some of these orders, as well as increased operations in existing plants, and the general stimulation

to industry and trade which these activities entail, practically assure a high level of activity for an extended period, particularly if the war in Europe continues.

Industrial production this month probably will about duplicate the record high reached last December and possible further gains in the near future will be limited by the inability of some of the most favored industries to produce at a materially faster rate than at present until capacities are increased, and perhaps to a lesser extent by the large inventories of some products. Steel mills, for instance, have been operating at or above 90 percent of estimated capacity since July and although order backlogs have continued to increase the rate of operation has been almost stationary for several weeks, suggesting both the practical difficulties of further significant increases in output and that there is little pressure for early delivery of some orders recently placed. A considerable amount of the steel produced during the past 6 months, and now on order, is for additions to stocks. Recovery in automobile production from the period of low output incident to introduction of 1941 models has carried the outturn above 110,000 units a week - a rate which will result in a rapid building up of dealer stocks.

Additional examples of important industries in which operations are at or near record levels are machinery, cotton textiles, chemicals, and manufactured foods. These 4 industries, together with iron and steel and automobiles, account for about half of the total weights assigned to the various industries in the Federal Reserve index of industrial production. Operations in some other industries of relatively small importance such as aircraft and shipbuilding also are at record levels. With operations in such a large segment of industry entering or approaching uncharted ground it is logical to expect that further gains in general industrial activity will be less spectacular than the recoveries from lower levels in recent years, despite the stimulating effects of the defense program.

Industrial exports are of growing importance to our domestic economy. The loss of continental European markets (see cover chart) has been more than offset by increased exports to Great Britain. In August exports of industrial products were the highest in dollar value since October 1929. It is estimated that exports of processed products during the first 8 months of 1940 accounted for 10 percent of the output of factories as compared with less than 8 percent of the lower production in the corresponding period of 1939. For the year as a whole the value of industrial exports gives promise of equaling the 1928-29 average, and with this exception will be the largest since 1920. In relation to the value of factory production, exports in 1940 probably will be the highest since 1921 and double the 1932-36 average. Exports of steel and some other industrial products going to the United Kingdom in increasing supply are much larger in relation to output than are total exports. Steel exports in August are estimated to have been 22 percent of production. Aircraft exports apparently are an even larger portion of output. Exports so far have been a much larger proportion of total industrial output than has been production for defense.

Although the loss of a considerable portion of this export business would have unfavorable repercussions on domestic industry, the domestic

defense program is gradually shifting into high gear and getting into better position to absorb the shock to business if unfavorable foreign developments should have such an effect on exports.

In view of these conditions, industrial output is expected to rise somewhat further and to be sustained at comparatively high levels for an extended period, resulting in further improvement in the domestic demand for farm products.

EXPORT DEMAND

The value of exports of domestic agricultural products rose sharply after the outbreak of war in Europe from 44 million dollars in August 1939 to 97 million dollars in January 1940. Since January, however, the trend of agricultural exports has been sharply downward (see cover chart) and in August totaled only 26 million dollars. This represents a decline of 73 percent from the January value and of 40 percent from August a year earlier.

The loss in exports to continental Europe, due to the British blockade, has been especially large. The value of agricultural exports going to continental Europe has recently been running at 1 to 2 million dollars per month as compared with over 30 million dollars early this year and with approximately 13 million dollars in August 1939. Exports of agricultural products to Japan also have declined sharply; in August they were only 4 percent as large as in January, and 21 percent as large as in August 1939. Declines in exports to the United Kingdom have also been severe, and in August they totaled less than 10 million dollars as compared with over 17 million dollars a year earlier and twice that amount early this year. Agricultural exports to Latin America are not of great significance (see cover chart) but are higher than a year earlier and about the same as they were prior to invasion of the Low Countries by Germany earlier in the year. Canada continues to take more of our agricultural products than before the start of the war in Europe, and is buying more than all of Latin America. Next to the United Kingdom, Canada is the largest export market for United States farm products.

While the war in Europe continues, exports of agricultural products as a whole are not likely to show substantial improvement. Important products significantly affected by the unfavorable export situation include cotton, tobacco, wheat, pork products and lard, fruits, soybeans and feedstuffs. Some products not ordinarily bulking very large among agricultural exports, such as dairy products and dried beans are in a somewhat more favorable position, but any possible increases in exports of these products from present levels would be small compared with the declines in agricultural exports which have already occurred.

Although termination of the war in Europe would find supplies of many agricultural products in continental Europe below normal, it is not at all certain that United States producers would come in for any substantial portion of import requirements of this area. South America and other surplus-producing areas, as well as the United States, have experienced sharp curtailment in export markets for their farm commodities and in their eagerness to take advantage of the new export opportunities probably would be less reluctant than the United States to resort to barter arrangements or other trade methods which

may be necessitated by the reduced purchasing power of Europe. The United Kingdom, which continues as our most important customer for agricultural products, might increase her purchases of United States farm products, but the necessity of conserving financial resources for post-war rehabilitation would probably result in continued restriction of imports and dependence on Empire sources insofar as possible.

WHOLESALE COMMODITY PRICES

Wholesale commodity prices have advanced for the second month. The rise has been moderate and since mid-September the rate of gain has been even slower than a month earlier. Expected further improvement in consumer purchasing power should result in an extension of the advance in prices of farm products not dependent in any large degree on export markets, and together with development of the defense program probably will also result in additional gains in prices of industrial products.

Except for import commodities the largest gains in wholesale prices since mid-August have been in the agricultural product and industrial raw material groups, according to the Bureau of Labor Statistics index of basic commodity prices.

Gains in wholesale prices of agricultural products during the past month have been confined largely to grains and dairy products. Meat product prices have declined, while changes in prices of poultry products and cotton have been unimportant. Prominent among the industrial raw materials sharing in the price rise of the past month have been non-ferrous metals, steel scrap, and building materials.

As defense expenditures are increased and industrial activity and payrolls are stimulated there should be a further rise in commodity prices. However, for the remainder of 1940 at least the rise probably will be moderate. Export markets for agricultural products are practically closed, and Government programs are sustaining prices of some commodities above the levels that would otherwise prevail. Consequently, the effect of rising industrial activity and consumer buying power on prices of these products will not be as much as usual. In the case of industrial raw materials, supplies and capacities apparently are generally ample to care for potential domestic and export requirements, at least until the defense program becomes a more important factor.

PRICES RECEIVED AND PRICES PAID BY FARMERS AND CASH FARM INCOME

Farm income from marketings of all products increased less than seasonally from August to September and for the first time this year probably was somewhat smaller than a year earlier. The late movement of cotton, which more than offset the effects of a slight gain in the general level of prices received by farmers, was the principal reason for the smaller-than-seasonal increase in income. Prices received by farmers were in general moderately higher in October than in September, according to preliminary indications based on price changes in wholesale markets. However, prices were little changed for cotton and meat animals, both of which at this season contribute importantly to cash income. Nevertheless, income from farm marketings probably

will increase somewhat more than usual in October, largely as a result of a greater than seasonal increase in cotton marketings. Government payments have continued to increase but are lower than a year earlier.

The ratio of prices received to prices paid by farmers at 80 percent of the 1910-14 average in September was the same as in September 1939, in which month the ratio rose 6 points following the outbreak of war in Europe. A further rise in the ratio of prices received to prices paid may be reported for October.

COTTON

Prices of spot cotton in domestic markets, supported by Government loans, were relatively steady during the past month with the 10 markets daily average for Middling 15/16s inch ranging from 9-1/4 to 9-1/2 cents. Prospects for the domestic crop and the world supply of American cotton remained about unchanged in September. Domestic mill consumption in September, of 639,000 bales, was the highest for the month on record, and 2 percent higher than in September last year, but slightly less than in August. Most domestic mills are apparently well booked with unfilled orders. Sales by British manufacturers continued below production despite some further curtailment in output. Cotton mill consumption continued materially restricted in Japan and China, although to a less extent than in continental Europe.

Present indications are that 1940-41 will make the fourth consecutive year of a total world supply of cotton close to 50 million bales and of American cotton close to 25 million bales. Prior to these years, the total had never reached 45 million bales, and except for 1931-35 and 1926, the supply of American cotton had never exceeded 21 million bales.

Practically all of continental Europe (excluding Russia), where in the 5 years ended July 1939, consumption of imported cottons averaged roughly 5 million bales including 2-1/2 million bales of American, is cut off from exporting countries by the British blockade. Furthermore, consumption prospects in Japan, China, and Great Britain are less favorable this season than last. These conditions and wide price disparities between American and important foreign cottons seem likely to reduce exports of American cotton in 1940-41 to much less than 2 million bales as compared with exports of more than 6 million bales last season.

Under the stimulus of large United States Government purchases of cotton textiles and the prospective high level of industrial production and increased employment and pay rolls, United States cotton consumption seems likely to materially exceed 8 million bales during the current season. It may total 8-1/2 to 8-3/4 million bales compared with 7-3/4 million bales last season, and the record high in 1936-37 of nearly 8 million bales. But reduced consumption, both of American and foreign growths, in foreign countries is likely to much more than offset the increase in the United States. World consumption for the current season may be reduced to the lowest level since the early 1930's. The world carry-over on August 1, 1941 is likely to be materially larger than the 20-1/3 million bales in 1940 and somewhat larger than the record high of 22-3/4 million in 1938. The 1941 world carry-over of

American cotton may approach or even exceed the 1939 peak of more than 14 million bales. All but about 1 million bales or less of the American cotton carried over is likely to be in the United States and most of it owned or held as collateral by the United States Government.

WHEAT

Large world wheat supplies and low export prices will continue during the 1941-42 season, unless world acreage is materially smaller than is now expected, or world yields per acre are small. Wheat prices in the United States, on the other hand, are expected to remain independent, to a considerable extent, of prices in other countries. A large crop, or abandonment of the loan and export subsidy programs, however, would probably cause domestic prices to be more dependent upon the factors which affect prices in other countries. Indications are that the acreage seeded to wheat for harvest in 1941 in the United States will be about the same as in 1940. If the total seedings for harvest in 1941 are about the same as this year, and abandonment and yields are average, production will total about 750 million bushels. This would leave about 50 million bushels for export or addition to carry-over at the end of the season, after deducting domestic disappearance of about 700 million bushels.

Since the middle of September, domestic prices of good quality wheat have advanced as the result of the limited "free" supply. Many mills, especially those located at interior points, have been finding it difficult to obtain supplies at current prices. Prices in most markets are still not high enough to pay the Government loan and charges. The amount that current prices are now above "world" prices is indicated by the export indemnity which would be required to export wheat to Europe. Computed on the basis of export values, this would be 26 cents per bushel from Gulf ports and 22 cents from Pacific ports, which compares with 25 cents and 26 cents, respectively, a month ago. The October 1 estimate of the domestic wheat crop was only 8 million bushels above the estimate of a month earlier. The 1940 crop is now indicated to be 792 million bushels, which with a July 1, 1940 carry-over estimated at 284 million bushels, indicates a total supply of 1,076 million bushels. With domestic disappearance expected to be about 700 million bushels, this would leave about 376 million bushels available for export in 1940-41, or for carry-over on July 1, 1941. On the basis of present prospects, exports may total about 25 million bushels, compared with 45 million bushels in 1939-40.

CORN AND OTHER FEED GRAINS

Disappearance of feed grains during the quarter July-September was comparatively light, and October 1 supplies of feed grains totaled about 113 million tons, the second largest supply in 20 years, and 12 percent above the 1928-32 average. The number of grain-consuming animal units is expected to be about 5 percent below average and the supply of feed grains per animal will be the largest on record. The total carry-over of corn was around 701 million bushels, compared with 583 million bushels last year. Of this amount it was estimated that about 475 million bushels were sealed or held by the Government. This left a total carry-over of unsealed corn of about 226 million bushels, which is well above average. The total supply of

corn as indicated October 1 is 3,053 million bushels, compared with 3,202 million bushels last year. Prices of feed grains have advanced slightly since late September. The corn loan program is an important factor supporting feed prices.

The total acreage of feed grains in 1941 may not be changed substantially from that of 1940, if the Agricultural Adjustment Program continues on about the present basis. If weather conditions next year are about average, the yield of corn will again be above the 10-year pre-drought average on account of an increased acreage seeded to hybrids, and, with a large carry-over of corn and other feed grains, supplies of feeds next year may again be large relative to livestock requirements. Prices of feed grains may continue high relative to livestock prices during most of 1941, but the relationship may tend to become more favorable to livestock feeders as the year advances, in view of the prospective increase in consumer demand for meats and a reduction in hog marketings. If the corn loan rate is 61 cents per bushel on 1940 corn, as now appears probable, it will be an important factor supporting corn prices, and will tend to maintain prices of corn and, to some extent, other feed grains during most of 1941. The carry-over of corn next October 1 will probably be near the record carry-over this year. Hay supplies are again large relative to the number of hay-consuming animal units, and hay prices are comparatively low. Exports of feed grains during 1940-41 are expected to be insignificant.

HOGS

As a result of an 8 percent decrease in the 1940 spring pig crop and an approximate 12 percent reduction in the 1940 fall crop under those of a year earlier, slaughter supplies of hogs in the 1940-41 marketing year (October-September) will be substantially smaller than the large number marketed in the 1939-40 season. The weekly rate of hog slaughter has increased seasonally during the past month, and marketings will increase further during the next 2 months. The reduction in hog slaughter under a year earlier is expected to be more pronounced in the last half (April-September) of the marketing year than in the first half. Prospects are for stronger domestic demand for meats in 1941 than in 1940, and this together with a material reduction in slaughter supplies of hogs is expected to result in a materially higher level of hog prices in 1941 than in 1940, even though little if any improvement is expected in export demand. Although the hog-corn price ratio this winter will be less unfavorable for hog producers than last winter, it probably will continue below average, and the 1941 spring pig crop may be smaller than that of 1940. The total pig crop for 1941 may be a little less than the crop of 1940. Consequently little increase in hog marketing appears probable before the last half of 1942.

After reaching the highest level in nearly a year in late August, hog prices declined steadily through September and early October. The average price of butcher hogs at Chicago for the week ended October 12 was about \$6.40 compared with \$7.30 for the last week of August and \$7.10 for the corresponding week of 1939. Federally inspected hog slaughter totaling 3,168,000 head during September was about 4 percent larger than in August and 10 percent greater than in September last year. Inspected hog slaughter for the entire hog marketing year, October 1939 to September 1940, totaled 47,650,000 head. It was nearly 20 percent larger than in 1938-39 and was the

largest slaughter since 1928-29. The estimate of 1939-40 slaughter of the Bureau of Agricultural Economics - made in July 1939 - was 47 million head.

BEEF CATTLE

Total slaughter supply of cattle and calves during 1941 is not expected to be greatly different from the supply marketed in 1939 and 1940. Latest indications are that the number of cattle fed for market during the winter and spring of 1940-41 may be about the same as a year earlier, but marketings of other cattle probably will be a little larger next year than in 1940. Prices of cattle and calves are expected to be supported by stronger consumer demand for meats in 1941 than in 1940. Since 1938 the number of cattle on farms and ranches has increased. The tendency to hold back breeding stock for herd building purposes probably will continue for a few more years, but with the large number of cattle now on farms the trend in cattle marketings over the next several years is expected to be upward. Total slaughter of cattle and calves within the next few years probably will reach and exceed previous highs, and a marked improvement in consumer demand for meats will be necessary if a downward trend in cattle prices is to be avoided.

In early October prices of the top grade of beef steers reached the highest level in about 3 years. Prices of the upper grades of slaughter cattle have advanced seasonally since mid-June, while prices of the lower grades have fluctuated about steady to lower levels. The average price of good grade slaughter steers at Chicago for the week ended October 12 was \$11.60, about 25 cents higher than a month earlier, and around \$2.00 higher than in the corresponding week of 1939. Prices of stocker and feeder cattle weakened a little during September, and in early October the average price of feeder steers at Kansas City was only a little higher than the \$8.00 level that prevailed last fall for such cattle. Ordinarily marketings of slaughter cattle increase steadily during the fall and early winter. Inspected cattle slaughter in September, however, was 4 percent smaller than a month earlier. It was also about 8 percent smaller than in September 1939.

LAMBS

The 1940 lamb crop totaling 32.7 million head was 3 percent larger than the 1939 crop and the largest on record. Since most of the increase over a year earlier was in Texas, where a considerable proportion of the crop is usually held for marketing the following spring as yearlings, slaughter of sheep and lambs for the entire grass-lamb marketing season (May through November) may be no larger than in the corresponding period of 1939. Latest indications are that there will be at least as many lambs fed during the 1940-41 feeding season as were fed last fall and winter. Shipments of feeder lambs and sheep into the Corn Belt during the 3 months, July-September, were about as large as the unusually heavy shipments during that period last year. Wheat pastures in Kansas, Oklahoma and eastern Colorado have made excellent fall growth, and a heavy movement of lambs to these pastures from Texas and other Western sheep States is expected. Slaughter supplies of lambs during the 1940-41 fed-lamb marketing season (December-April), thus, probably will be as large as or a little larger than a year earlier. The number of lambs produced for the country as a whole has not changed greatly in the past 10

years; a slight upward trend has been evident since 1935. If weather conditions next spring are about average, the 1941 lamb crop probably will not differ greatly from that of 1940.

Inspected slaughter of sheep and lambs totaling 1,469,000 head during September was a little smaller than a month earlier, and it was about 10 percent smaller than in September last year. Inspected sheep and lamb slaughter for the first 5 months (May-September) of the 1940 grass-lamb marketing season totaled 7.2 million head, about 1 percent less than in the corresponding period of 1939. Prices of slaughter lambs strengthened a little in early October after remaining steady during most of September. The average price of good and choice grade slaughter lambs at Chicago for the week ended October 12 was \$9.45, compared with \$9.10 a month earlier and \$9.60 for the corresponding week of 1939. Prices of feeder lambs thus far this season have averaged a little higher than a year earlier.

WOOL

Consumption of wool by United States mills is expected to continue at a relatively high level in the next several months. This will be a strengthening influence on domestic wool prices. In view of the prospects for a continuation of large purchases of wool goods for Army use in 1941, mill consumption of wool in the United States probably will continue to exceed domestic production by a substantial margin. And it is expected that prices of wool in this country next year will be high in relation to those of most of the last several years. Increased buying of raw wool to fill Government contracts and an improvement in mill sales of wool goods for civilian uses in the latter part of September were accompanied by price advances on most grades of domestic wool at Boston. Prices of domestic wool in the first week of October were higher than at any time since the early part of the year.

United States apparel wool import requirements in the current season may be chiefly for finer grades because of the large use of the finer grades of domestic wool in materials for Army use. Australia and South Africa are the leading fine wool producing countries, although a considerable quantity of fine wool is available in South America. Hence the quantities of Australian and South African wool released for export and the prices fixed for such wools by the British Government will be important factors affecting prices of fine wools in the United States in the next several months. It now seems probable that considerable quantities of Australian and South African wool will be available for export to the United States.

DAIRY PRODUCTS

Three factors stand out as of particular importance in the outlook for dairymen for 1941. First is the widespread tendency for farmers to increase the number of milk cows. This trend has been in progress for over 2 years and promises to continue further. Second is the prospect for a higher level of industrial activity, consumer incomes, and wholesale prices, in 1941 than in 1940. Third is the prospect for an increase in exports of manufactured dairy products and a sharp curtailment in the imports of cheese.

If pastures and feed production in 1941 are about average or better, production of milk in 1941 will probably be somewhat larger than the record production in 1940. The improvement in demand conditions is expected to offset the effect of the larger production on prices, so that in 1941 prices of dairy products may average as high as and possibly higher than in 1940. Thus, the outlook is for an increase in income from dairy products.

In the past month the general rise in prices of dairy products and the unusually heavy production of milk for this season of the year have been the principal developments. The seasonal rise in butter prices was delayed somewhat by the small seasonal decline in milk production during the late summer. The peak in butter prices usually comes in December, and a rise during the remainder of the year is in prospect. Butter production in August was slightly less than a year earlier, but during September reports indicate a much higher production than in the same month of 1939. During the coming winter, production is expected to be heavy for that season of the year. There are more cows on farms than a year ago and feed supplies are ample.

POULTRY AND EGGS

Supplies of eggs in the United States for the first half of 1941 are expected to be about 3 or 4 percent smaller than they were in the first half of 1940, and supplies of chicken meat (including fowl) for the same period may be about 5 percent smaller than a year earlier. Because of the more favorable feed-egg ratio expected for next spring, 1941 hatchings of chicks are expected to be larger than in 1940. As a result, sales of chickens and eggs during the last part of 1941 may be larger than in the last part of 1940. Prices received by farmers for poultry products in 1941 are expected to be higher than in 1940 because of smaller supplies in the first part of the year, smaller supplies of pork, and the expected larger incomes of consumers. Cash income from chickens and eggs may be larger in 1941 than in either 1939 or 1940.

The number of turkeys raised in 1940 is indicated to be about 1 percent larger than in 1939, and the annual increase in average weight per bird appears to have continued. Thus, supplies of turkey meat for the coming fall and winter probably will be slightly larger than a year earlier, and turkey prices may be about the same or slightly lower than in the 1939 marketing season despite the prospective increase in consumer incomes.

Egg production during the last few months has been the largest for these months since 1931 despite 4 percent fewer layers, due to the higher average rate of lay per bird. However, the increase from now until January in the number of layers on farms will be less than usual, and thus egg production during the remainder of this year probably will be less than in the corresponding period of 1939. Egg prices in mid-September were higher than a year earlier. Poultry receipts were larger than a year earlier, but the average price received by farmers in mid-September was higher than a year earlier.

OILSEEDS, FATS AND OILS

Soybean production this year is indicated to be 81.5 million bushels, approximately 6 million bushels less than in 1939. Despite the smaller output,

domestic crushings of soybeans in the 1940-41 season are expected to be about 5 percent larger than in 1939-40, mainly because exports to continental Europe have been virtually eliminated by the British blockade. Approximately 11 million bushels of soybeans, representing 13 percent of the domestic crop, were exported last season. Cottonseed supplies for 1940-41 are somewhat larger than a year earlier, but are below average.

Reduced lard production and improvement in domestic demand will be factors tending to support soybean and cottonseed prices this season. Weakness in foreign demand for edible fats and oils, and abundant supplies of oilseed cake and meal, as well as feed grains, on the other hand, will tend to limit any price advance. The domestic flaxseed crop is nearly equal to crushing requirements this season; the trend in flaxseed prices in 1941 will be determined largely by the situation in South America, where flaxseed supplies are likely to become burdensome this winter when the new crop is harvested.

Peanut production for 1940 is indicated to be 31 percent larger than in 1939 and the largest on record. But with an expansion in the program for diverting peanuts to crushing mills, and with improved demand for peanut products, prices are likely to be maintained at or near the relatively stable level of the past six seasons.

Prices of all animal fats and oils, with the exception of butter and marine oils, however, were roughly 35-40 percent lower in September this year than last, while prices of domestic vegetable oils generally were 15-20 percent lower. The unusually low price level for domestic fats and oils has reflected the record large output of tallow, greases, and soybean oil this year, the abnormally large supplies of lard available for domestic consumption as the result of the loss of export markets, and the availability of large supplies of low-priced vegetable oils in the Philippines, Netherlands East Indies, and other surplus-producing areas now cut off from the important continental European market. Present indications are that lard and grease production in the United States will be reduced in 1941, which, with a stronger demand, should result in some improvement in domestic prices for food and soap fats and oils next year.

RICE

Prospects for the 1940 southern rice crop were reduced somewhat during September and on the basis of October 1 indications the crop will total 42.8 million bushels or about 11.9 million barrels. This, together with the August 1 carry-over in the Southern States, gives a total southern supply of 13,740,000 barrels or about the same as the large 1939-40 supply. The prospective California crop is smaller than the 1939 crop, but the carry-over of rice in California on October 1 was much larger, making the total supply 3,126,000 bags (100 pounds of milled rice) or slightly larger than the large 1939-40 supply. Although domestic consumption may be increased somewhat by increased incomes of consumers, the increase is not expected to be such as to reduce total United States stocks next year to near average. Prices paid for southern rice declined sharply following the harvesting of the southern rice crop, and the average United States farm price on September 15 was 62 cents per bushel, or about 12 cents per bushel under the price in mid-August.

During 1939-40 exports of rice totaled 301 million pounds (3,010,000 barrels). Exports, although a little smaller than during each of the two preceding years, otherwise were the largest since 1928-29. Shipments of rice to insular possessions during 1939-40 totaled 340 million pounds (3,400,000 barrels) or 51 million pounds greater than in 1938-39.

FRUITS

Prices received by farmers for fruit in September were seasonally lower than in August, but about the same as in September 1939. October 1 estimates indicate that production of the eight major deciduous fruits in 1940 probably will be 12 percent smaller than in 1939. Orange production probably will be the largest on record, slightly larger than in 1939 or 1938. Grapefruit production also is indicated to be materially larger than in 1939, although slightly smaller than the record crop of 1938. The combined production of oranges and grapefruit from July to June 1940-41 is estimated at 4,941,000 tons, or 18 percent above that of 1939 and 1.6 percent below that of 1938.

The anticipated higher level of consumer incomes and domestic demand for fruit in the 1941 marketing season (April to March) will be accompanied by a continuation of very low export demand. It appears that a much greater than normal portion of the nation's fruit crops and products for 1941 will have to be placed on the domestic market, or disposed of through some kind of diversion program. With average growing conditions a larger total production of fruit crops would be expected in 1941 than in 1940. The total cash income from fruit production in 1941 probably will be substantially higher than in 1940, and perhaps the highest in the last 10 years.

TRUCK CROPS

Market prices of truck crops in general declined slightly more than seasonally during September as marketings of the late crops increased, and prices in early October averaged below those of a year earlier. As a result of favorable growing weather the production prospects of many late crops improved in recent weeks. Market supplies of late lima beans, snap beans, cabbage, carrots, and cucumbers, are indicated to be larger than a year earlier, whereas supplies of late cauliflower, celery, lettuce, onions, peppers, and spinach are indicated to be slightly smaller than in 1939.

Preliminary reports on the acreage planted and intended to be planted to 10 truck crops for fall and winter harvest (the first of the 1941 crops) indicate an increase of nearly 5 percent in the combined acreage over that of 1940 and about 25 percent over the 1930-39 average. The plantings of new crop snap beans, cabbage, carrots, cauliflower, kale and spinach are increased over those of 1939, but the plantings of artichokes, celery, and peppers are decreased. The total acreage of asparagus indicated to be available for all purposes in 1941 is about 1 percent larger than that harvested in 1940 and 19 percent larger than the 10-year 1930-39 average.

In 1941 it is probable that total plantings of truck crops will be increased slightly, and barring severe weather damage, the acreage for harvest may be slightly larger than in 1940. It is probable that increases will occur

in the 1941 acreage of most of the important truck crops, except perhaps lima beans, cabbage, cauliflower, celery, and watermelons. Because of the relatively high prices received in 1940 for many of the early truck crops, it is likely the acreage of many of these will be increased substantially in 1941. In 1941 a further increase in consumer purchasing power is expected to take place, and probably will result in some further advance in the general level of truck crop prices. For those crops for which production is increased substantially, however, the price rise may not materialize and there may be some declines.

The acreage and production of truck crops for processing is expected to be increased somewhat in 1941 over that of 1940. With the exception of canned peas, the carry-over into 1941 probably will not be large. It is probable, therefore, that if the acreage is increased in 1941, cash income from production will also increase.

POTATOES

The 1940 late crop of white potatoes is now indicated to be about 15 million bushels larger than the 1939 crop and 9 million larger than the 10-year (1929-38) average. Compared with last year there are larger supplies of late potatoes in each of the three major regions, with the greater increase occurring in the 8 Eastern States. The gradual increase in the late crop prospect during recent months has accentuated the seasonal decline in potato prices. In early October, therefore, market prices averaged slightly lower than a month earlier and substantially lower than a year earlier. But unless the crop prospect continues to improve it is probable that market prices are now near the seasonal low point.

The United States potato acreage probably will be increased slightly in 1941 over that planted in 1940. An increase in plantings in the early States is expected to be largely offset by a decrease in intermediate States. On the basis of the present price prospect for the late 1940 crop, it is probable that the acreage planted in the late States in 1941 will be increased only slightly over that planted in 1940. The slightly larger plantings for the country as a whole with yields equal to the average of the last 4 years, would result in a total United States potato crop slightly smaller than the 389 million bushels indicated for 1940. The prospect also is for improvement in the consumer demand for potatoes in 1941 over 1940.

A slight increase in plantings of sweetpotatoes is in prospect for 1941. The acreage was reduced about 8 percent in 1940, and this reduction together with a slightly lower yield per acre, resulted in the smallest crop since 1936. Ordinarily the sweetpotato acreage in the south varies inversely with the price of cotton of the previous season, and in the commercial areas directly with the price of sweetpotatoes of the previous season. In 1941 it is probable that the acreage in the south will be little different from that planted in 1940, but in the commercial areas it probably will be increased slightly because of the higher level of prices prevailing in the current season.

TOBACCO

The tobacco situation continues to be greatly influenced by the loss of continental European markets and the low level of British imports. Nonexport types are in a stronger position than the export, production being more closely in line with prospective disappearance. The market situation of flue-cured tobacco has been improved by the imposition of marketing quotas resulting in smaller production, and by Commodity Credit Corporation purchases for British account. Since domestic demand continues to be fairly strong for most types, the average price for all types combined will be somewhat higher for the 1940 crop than the 1939 average of 15.4 cents.

During 1941 the same trends will be in evidence, that is, continued increases in domestic use and probable further declines in exports. With Government programs continued and an improved stock situation for some types, prices next year should show further small increases, barring the closing of some of the limited export outlets still available.

Following are the complete 1941 outlook reports of the Bureau of Agricultural Economics for Domestic Demand, Export Demand, Wholesale Prices, and Farm Prices and Income. Condensed versions of these reports, together with the 1941 Commodity Outlooks, are contained in the October issue of The Agricultural Situation, published by this Bureau.

DOMESTIC DEMAND

The domestic consumer demand for farm products in the United States is expected to be considerably better in 1941 than the average for 1940. Industrial activity should be materially increased, influenced by the enlarged defense program and increased exports of industrial products. General employment and consumers' income will feel the gradual cumulative effects of the improvement in business conditions which has occurred during the past 2 years. The improved consumer demand will affect particularly those products which are sold almost entirely in domestic markets, including meats, dairy and poultry products, some fruits, and vegetables.

This analysis is based on the defense program as now projected, and upon the assumption that the European war will continue. If the international situation as it involves the United States should become much more acute, military expenditures in 1941 might be much greater, industrial activity would experience a greater increase, price changes might be greater, and the effects on farmers of these conditions would be greater and somewhat different than indicated herein. A more remote possibility is that settlement of some of the world's present difficulties would bring a let-down in tension and decelerate the industrial machine.

Defense program a major factor

The enlarged program for national defense will be a major factor in the expected improvement of business conditions in 1941. The increase in military expenditures in 1941 over 1940 probably will be about 5 billion dollars. At least two-thirds of total defense expenditures will be for heavy military and naval equipment such as guns, ships, tanks, shells and airplanes; the remainder will go for light equipment and upkeep of the enlarged Army and naval forces. In addition to these increased defense expenditures by the Government, private industry will spend considerably more than in 1940 for additions to plant and equipment necessary for filling defense orders.

Partly offsetting the effects on business activity of these increased defense expenditures, however, may be decreases in some other categories of Government spending, and increased tax collections. The defense spending, however, probably will have greater indirect effects upon industrial activity and private employment than would similar expenditures for other purposes which may be reduced, and not all of the increased tax collections will represent an actual deduction from private spending.

The development of the defense program also is having a very stimulating effect upon general business sentiment, and indirectly upon lines of industrial activity not directly benefited by defense expenditures. Business men are anticipating several years of generally favorable business conditions and possibly rising prices, which may cause them to be less apprehensive over their inventory positions and more inclined to take risks in developing new or expanding old enterprises. Buyers of durable consumers' goods such as houses and automobiles may be similarly affected. In fact, these indirect effects of the defense program in its early stages are likely to be as great in affecting the general level of industrial production as are the actual expenditures.

A part of the stimulating effects of the defense program, however, will be merely an offset to unfavorable developments which otherwise might have occurred in the business situation, and to this extent will not represent a net increase in industrial activity over the average level prevailing in 1940. Inventories of many industrial products are at a high level, partly because following the outbreak of war in Europe, and later when our defense program was inaugurated, many business men placed large orders for future needs in anticipation of possible higher prices and difficulties in obtaining deliveries. Automobile production has been quite high for some time and had it not been for the stimulating influence of the defense program might have fallen off sometime in 1941. Textile production also has been high for an extended period, and in the absence of defense requirements might have declined in 1941. Steel output would have been quite large in 1940 even without defense orders, and it is doubtful that in the absence of a defense program it would have been as great in 1941. Nonresidential building construction, also, might not have been as great in 1941 as in 1940, and very active residential building in a number of large industrial centers in recent years might have declined sufficiently to more than offset the gradual spread of such construction to smaller communities and other sections of the country. The effect of the defense program, therefore, will be partly taken up in offsetting the effects of some unfavorable conditions which otherwise might have resulted in a different course of industrial activity in 1941 than that which is now in prospect.

Exports of industrial products up

Following the outbreak of the European war in September 1939 exports of industrial products rose sharply. The value of exports increased about 36 percent from September to December 1939; and they rose from 7.3 percent of industrial production in the United States in September 1939 to 9.2 percent in December. Following the German invasions in May a number of important continental European export outlets for United States industrial products were cut off, but the effects of this on our exports were offset by increased purchases by Great Britain (see chart on cover page). The total value of industrial exports, consequently, remained almost unchanged. At the present time, exports of industrial products to Great Britain represent about three times as large a proportion of our total industrial exports than before the outbreak of war or before the German invasions this spring. This is despite an increase since the start of the war in industrial exports to

South American countries and some other neutral nations which have been cut off from their usual European sources of supply (see chart on cover page).

If Great Britain continues the fight with Germany, exports of industrial products to that country may increase somewhat further as industrial plants in the United States become better prepared to meet British requirements, as Great Britain is able to expand its armament production and consequent requirements for raw and semifinished industrial materials, as stocks of such materials in Great Britain are used up, and as some British plants are incapacitated by bombing, with the consequent necessity of drawing to a greater extent upon the United States. It is believed that the purchasing power of Great Britain is sufficient to finance any possible purchases of industrial products from the United States during 1941. If the war continues, exports of industrial products to South America and other parts of the world also may increase somewhat; but such expansion will be definitely limited by restricted purchasing power of these countries, which have lost many of their usual markets for the surplus agricultural and industrial raw materials which they produce. The net result of all of these developments should be a further increase in exports of industrial products from the United States if the war continues through 1941.

If, on the other hand, Great Britain should cease to fight, exports of industrial products almost certainly would experience a marked decline. This is evident from the fact that so large a part of present exports is for military purposes. Moreover, the purchasing power of all European nations which have been fighting Germany would be partly tied up in one way or another. Eventually, requirements of industrial products for rehabilitation of Europe would be very large, but Germany no doubt would obtain a large part of this business, and the nations in need would have continued difficulty in finding the dollar exchange necessary for purchases from the United States. It is doubtful that these difficulties could be straightened out in time to effect a substantial recovery of our industrial exports to Europe during 1941. Even if Great Britain should win the war in so short a time, the time required for changing over from a war- to a peace-time basis would prevent early recovery of our industrial exports to that country, following the cancellation of war orders.

It is roughly estimated that the loss of present exports to Europe might result directly in a reduction of industrial production in this country below what it otherwise would be of about 5 percent. (In no event is it likely that exports to Europe would be entirely eliminated; but on the other hand, exports of industrial products to South America and other countries which could renew purchases in Europe if the war ended might be reduced by an amount equal to the quantity of products we could continue exporting to Europe). Thus, the direct effects of the loss of the European market would not be sufficient to offset the stimulating effects on industrial production in 1941 of the national defense program. The indirect effects, however, might be much greater, depending upon the way in which business men and consumers allowed their purchasing and investment policies to be altered by

such a development. It is possible that the sudden termination of the war would cause some business men to liquidate inventories, cancel orders previously placed for industrial products such as steel, and postpone plans for plant expansion or the financing of new industrial enterprises.

Steel output to increase further

During 1940 the steel industry operated on the average at more than 80 percent of capacity, which has been substantially enlarged in recent years, making the total output of iron and steel slightly larger than in 1929. It now seems probable that the requirements for defense, exports and ordinary commercial uses in 1941 will necessitate average operations at 90 percent or more of capacity. There will probably be some increase in steel producing capacity during 1941. Such a volume of output would be by far the greatest ever attained in this country, and as a percentage of prevailing capacity would just about equal the record set in 1916, 1917 and 1929.

The steel needs of all major consumers, except perhaps automobiles, are expected to increase. Except for automobiles, the construction industry is the most important source of demand for steel. Defense requirements will necessitate a considerable expansion of factory construction activity, a type in which steel plays an important part. The railroads come third among the domestic consumers of steel: their traffic is expanding (car loadings were up about 10 percent in the first 9 months of 1940 compared with 1939), and the demand for new rolling stock should hold up well in 1941 despite sizeable rehabilitation programs undertaken in the fall of 1939.

Among the other important users of steel which are expected to increase their takings in 1941 are manufacturers of machinery and ship-building yards. The latter probably will use 50 percent more steel than in 1940. Direct requirements for defense other than ship building will be considerable in 1941, since many of the defense items, such as tanks, shells and torpedos, are largely steel, and numerous others are in part made of steel.

Exports of steel, like those of many other industrial products, rose sharply following the outbreak of war. But following the German invasion, steel exports again rose, and in August were about 22 percent of total steel output, compared with 13 percent in May and 6 percent in August 1939. A much larger proportion of present steel exports are going to Great Britain than a year earlier or even in April of 1940. If the war continues, steel exports may be increased somewhat even over the present high rate.

For more than 6 months steel consumption has been running behind production for domestic use, but mill order backlogs have not been reduced and the outlook for a growing domestic demand for steel for normal use and for armaments suggests that operations may be maintained at near-capacity rates indefinitely unless export markets are disrupted by the end of the present war in Europe.

Machinery production at all-time high

By the end of this year machinery output is expected to approximate the all-time high reached in 1929, and the average for 1940 also may be about as high as in 1929. In 1941 production probably will tax the facilities of the industry.

Utility and industrial demand for heavy electrical equipment already is very large even before the defense program has gained momentum. Orders for electrical equipment recently have been of record volume. With additional large orders to result from defense requirements and the general high level of industrial activity, machinery production in 1941 should show a sizeable gain over 1940.

Building construction stimulated by defense program

In 1940 residential construction has been at a high level, but non-residential building and construction was lower than a year ago during the first part of the year and had a declining trend. Defense requirements, however, will necessitate a considerable increase in heavy construction in 1941, and a relatively high level of consumer purchasing power and business activity should at least maintain residential construction around recent high levels unless building costs rise too rapidly.

The addition of about a million men to the military forces will call for the construction of many barracks, which will contribute to the demand for lumber and miscellaneous building materials. A noticeable increase in construction of plant facilities already is taking place in order to produce the greatly enlarged requirements for airplanes, tanks, ammunition, chemicals and other defense items. Furthermore, steps may be taken to strengthen highway bridges and relieve traffic bottlenecks as a supplement to the defense program. These developments probably will result in a material increase in the output of cement, brick and steel.

Fuel production may continue high

Fuels have a relatively heavy weight in the new Federal Reserve index of industrial production, and also production usually fluctuates considerably from year to year. The outlook for 1941 is for an increase in domestic demand, but some further loss in exports, particularly of petroleum products. Consequently, production of petroleum in 1941 may deviate little from that in 1940. Bituminous coal production has been very large for about a year, in part due to stocking up in anticipation of the setting of minimum prices by the Bituminous Coal Commission as of October 1, 1940, which will affect output during the winter ahead. Hence, even though there is ordinarily a very close relation between changes in fuel production and in general industrial conditions, no large change in the output of fuels in 1941 compared with 1940 now seems probable.

Automobile production sustained at high level

Present indications are that the 1940 domestic output of automobiles and trucks will be close to 4-1/2 million, a substantial increase compared

with the 3.6 million produced in 1939 and the average production of recent years. Output of both 1939 and 1940 models was high, and the production of 1941 models during the remainder of 1940 no doubt will be large. In the ordinary course of events, some tapering off in automobile output, after allowing for seasonal variation, might be expected beginning sometime in 1941. With the exception of 1938, when the depression cut auto sales, output has been high during the past 6 years, and a one or two year letdown would not have been surprising. Recent increases in prices and the loss of continental European export markets also are unfavorable influences. The early start of the 1941 model season, also, will throw more of the 1941 model production into the 1940 calendar year than would ordinarily be the case.

Partly or wholly offsetting these unfavorable influences will be the prospective increases in consumer purchasing power resulting from the defense program and the expected improvement in general business activity. In addition, there will be substantial military orders for motor vehicles. Taking into account all of these circumstances, it seems reasonable to expect that automobile production in 1941 will not be greatly different than in 1940.

Textile output continues high

Cotton consumption in 1940 apparently will establish a new high calendar year record of about 7.75 million bales. Consumption in 1939 (7.4 million bales) also was high. These high operating rates reflect recovery from the 1938 depression, relatively low prices of cotton, increased exports of cotton goods due to export subsidies and to cutting off of continental European sources of supply by the war, and the general improvement in business activity and consumer purchasing power. In the early part of 1940 large inventories of cotton goods had been accumulated by the mills, but the situation in other channels of trade was not alarming. Since then, mill inventories have been reduced sharply and prices have strengthened. The continued excellent consumer demand and further large Government purchases of cotton goods for defense purposes will tend to sustain cotton mill activity in 1941 around or perhaps even above the present high level.

Woolen textile production in 1940 probably will fall short of the 1939 total despite large Army orders to be filled during the last half of the year and which may amount to as much as one-fourth of a normal year's domestic consumption. Production for civilian consumers, therefore, is down sharply in 1940, which augurs well for increased output for such uses in 1941. If, in addition, new military orders are placed to be filled in 1941, total output in that year may be substantially higher than in 1940.

Rayon deliveries have been running near plant capacity for some time, with output in 1940 probably exceeding the record production in 1939. Fluctuations in rayon production seem to be more independent of changes in the general business situation than in some other lines, and retail sales recently have been somewhat irregular, but in view of the steep upward long-time trend in production and recent increases in the capacity of some plants producing favored types of rayon, the total output in 1941 may hold around the 1940 level. Silk deliveries, which in 1940 have been the smallest in 20 years, may

show some recovery in 1941 in response to the improved consumer purchasing power, despite other unfavorable factors in the situation for this industry.

If these indications prove correct, textile activity as a whole in 1941 will experience a modest increase.

Other industries contribute to favorable outlook

There are a number of other industries which in the aggregate contribute importantly to the total volume of industrial production. Principal among these industries are manufactured food products, tobacco products, airplanes, chemicals, metals, leather products, rubber products, household equipment and printing and publishing. Individually, however, these industries either fluctuate relatively little from year to year or have only a small weight in any measure of industrial output. For example, manufactured food products have a weight of about 11 percent in the new Federal Reserve index of industrial activity, but output fluctuates so little from year to year that the net effect on the index as a whole usually is negligible. Airplane production, on the other hand, fluctuates greatly, yet has a very small weight in the Federal Reserve index. Hence, changes in the output of these two types of products, one important but sluggish and the other highly volatile but now relatively unimportant, do not have much part in the industrial outlook for 1941. Over a longer period, the marked upward trend in some of the presently small defense industries will have a greater effect on total industrial activity.

In general, fluctuations in the more important of these miscellaneous industries tend to follow rather than to initiate fluctuations in industrial activity as a whole. Hence, in view of the general outlook which has been discussed, it seems probable that there will be a modest increase in the output of such miscellaneous commodities in 1941 compared with 1940.

Employment and consumer incomes to improve further

Usually there is some lag between changes in industrial production and in general employment and consumer purchasing power. Changes in manufacturing employment are not proportional to changes in output because of the overhead organization necessary regardless of fluctuations in production, and because plant efficiency varies directly with output. More importantly, changes in industrial activity, employment and payrolls lead to later changes in miscellaneous types of employment such as service and distribution. Payments on capital utilized in industry also lag behind changes in the volume and percentage of operations. The presence of these lags means that the substantial increase in industrial production during 1940 will have a cumulative effect into 1941 on general employment and purchasing power.

No demonstrably accurate data have been available to indicate the extent of unemployment in recent years. The National Industrial Conference Board estimated that in the first 8 months of 1940 the number unemployed was between 8 and 9 million. This number will be substantially decreased in 1941 if changes in industrial activity are as indicated above, and also as a result of the increase in the armed forces of the country. The latter either

will take men from the ranks of the unemployed or will cause many of those taken to be replaced in private employment by those not now having jobs. If past relationships between industrial activity and nonagricultural employment continue in 1941, at least 2 million additional persons will be employed in private industry above the number so employed on the average in 1940. In addition, the Army, Navy and Marine Corps, according to present indications, may on the average maintain in 1941 a force greater by about a million men than in 1940. With the annual growth of about one-half million in number of employables, this would mean a net reduction in the number of unemployed in 1941 compared with 1940 of about two and one-half million.

Increasing employment is fairly certain to be accompanied by some increases in wage rates and in the average number of hours worked per employed person. Industrial payrolls tend to advance more rapidly than employment when industrial activity is increasing. The incomes of many elements in the urban population are affected by changes in the volume of business activity and by changes in the general level of prices at which these transactions occur. Since both the volume of business and the level of prices probably will be higher in 1941 than in 1940, types of nonagricultural income other than wages and salaries also are expected to be increased. In view of these conditions, the total purchasing power of urban consumers of farm products should be very substantially higher in 1941 than on the average in 1940.

Prospective effects on demand for farm products

A higher level of consumer purchasing power in 1941 will bring a general improvement in the domestic consumer demand for farm products. This will be particularly true of meats, dairy and poultry products, some fruits and vegetables. The demand for this type of commodities in local farm markets also is influenced by changes in marketing charges intervening between the farmer and the consumer. Since these marketing charges ordinarily are relatively inflexible, a given percentage change in consumer demand and retail prices for these commodities usually is accompanied by a larger percentage change in demand and prices in local farm markets. The increases in wage rates and other costs which are in prospect for 1941, however, will tend to bring some increases in marketing costs, but probably not enough to prevent the percentage changes in demand and prices in farm markets from exceeding those in retail markets.

The demand for farm products which are exported, which can be stored from year to year, and which are traded on the speculative markets, will reflect not only changes in consumer purchasing power and demand in this country, but also changes in export demand and dealers' estimates of probable future supply and demand conditions. Moreover, prices of some products of this type, such as wheat and cotton, now are being supported by Government programs above the levels which otherwise would have been established by supply and demand conditions. For these reasons, the demand for and prices of such commodities in 1941 may be affected only slightly by the indicated changes in domestic consumer demand.

EXPORT DEMAND

Export demand for United States farm products is likely to be even worse in 1941 than it was in 1940. In the first place, continental European markets which were open to American exporters during the early months of 1940 now are almost entirely shut off, and will be as long as present hostilities continue. In the second place, Great Britain has increased import restrictions on some commodities compared with those prevailing during the first part of 1940. In the third place, during the first half of 1940 cotton exports to Great Britain and other countries continued high as a result of orders placed in the preceding fall when European stocks were low, importers were afraid of later inability to obtain shipping space, and the United States was paying a subsidy on exports; in contrast, cotton exports in 1941 are expected to be very small.

World supplies of wheat continue large, and Great Britain can obtain all of her needed supplies from the Dominions. War restrictions on imports by the United Kingdom of fruits, pork and lard and miscellaneous products will continue, and may be even more severe in 1941 than in 1940. Exports of soybeans and feedstuffs to Denmark, the Netherlands and other countries will be greatly reduced. Exports of a few products, possibly including tobacco and dairy products, may be somewhat larger in 1941 than in 1940, but this is not at all likely to offset the losses applying to other commodities.

If the present war in Europe should be terminated, it is possible that the export situation would prove to be more favorable than has been indicated. There would be deficits of agricultural products in numerous areas of Europe, which would turn immediately to the Western world for supplies. The purchasing power of the affected countries, however, would be greatly reduced, and resort might be had to barter arrangements to obtain the needed supplies. South America and other surplus-producing nations, which have experienced sharp curtailment in their regular markets, no doubt would bid eagerly for any such new business, and any considerable share obtained by the United States might have to be at the expense of additional export subsidies. Even if Great Britain were not defeated, the costs of rehabilitation will be so great as to make probable a continuation of limitations on imports of many items, and of efforts to obtain needed supplies from Empire sources.

WHOLESALE PRICES

The general level of wholesale prices in the United States is expected to average materially higher in 1941 than in 1940. The forces affecting prices will be conflicting to an unusual extent, with the defense program and general business improvement favoring higher prices, but the foreign situation in general constituting a depressing influence. The general level of prices has been unusually stable in 1940, and the fluctuations during the past 3 years have been much smaller than in any similar period since the late 1920's.

Forces tending to raise the price level

The national defense program will have a strengthening effect on the general price structure, both agricultural and nonagricultural.

The higher level of consumer purchasing power which defense expenditures are expected to generate, and the resulting increased consumer demand, will exert an upward pressure on prices of meats, dairy and poultry products, and some fruits and vegetables. These products are not directly and materially affected by the unfavorable export situation, and their production does not respond quickly to changes in demand. The principal effect of the higher level of business activity and consumer incomes, therefore, will be to raise prices of these commodities rather than to increase consumption.

The demand for nonagricultural consumers' goods also will be increased. Usually, however, improved demand for these products is reflected more in increased output than in higher prices, unless costs increase at the same time or the quantities taken by consumers approach the limits of plant capacity. One reason prices tend to rise rapidly in a country which is actually at war is that consumer purchasing power increases rapidly at the same time that the output of consumers' goods is limited by the use of a large part of productive capacity to make war equipment. It is not expected that the present defense program will place such a strain upon manufacturing capacity in 1941 as to prevent expansion in output of those kinds of consumers' goods experiencing improvement in demand. It has been found to be just about as practicable in many cases to build new plants for the manufacture of war equipment as to use existing plants which are now devoted to the production of consumers' goods such as automobiles. Large increases in prices of manufactured consumers' goods, therefore, are less likely to result from direct limitations on output as from increases in costs of raw materials and labor. The latter will be responsible for price increases in some lines of nonagricultural consumers' goods in 1941.

The defense program will greatly increase the demand for certain raw materials and semifinished products, and for skilled and semiskilled labor. Sharp advances in prices of these products, and of wage rates, might lead to an ascending spiral of higher costs, increased prices, rising costs of living, demands for further increases in wages, and so on. Once under way, such a movement may be able to carry along with it other prices which would not be directly affected by the developments leading to the inflationary spiral. Cotton prices, for example, rose during the World War despite restricted foreign outlets. A spiral increase in costs and prices of this nature might occur if defense requirements should greatly tax the capacity of production facilities in key industries such as steel, or lead to competitive bidding by industrial plants for a limited supply of labor having the necessary skills.

At the present time it appears that productive capacity for coal, copper, oil, and many other types of raw materials of which shortages have existed in some previous emergencies will be ample for requirements of the present program in 1941. If any serious bottlenecks occur, they are most likely to be in the production of metals. The European war has curtailed markets for most raw materials produced in foreign countries, such as rubber, and in the absence of further unfavorable foreign developments there should be no lack of adequate supplies of these commodities. Although shortages of certain types of skilled labor already have developed, the vast reservoir of unemployed labor can be drawn on to fill many old as well as new jobs requiring little skill, making available for more exacting tasks those who have been temporarily engaged in work below their usual occupational level.

The partial financing of defense expenditures in 1941 by borrowing will cause their business stimulating effects to be greater than if they were financed entirely by taxes on consumption. Likewise, private borrowing for industrial expansion necessary for the production of military equipment already has shown some increase, and will add to the amount of commercial bank credit outstanding. But the extent to which this may contribute to a rise in prices will depend largely upon industrial developments of a nonmonetary character such as have been discussed above.

Forces tending to lower, or to limit
increases in the price level

The European war has had mixed effects upon the general commodity price level in the United States. Loss of continental European markets has additionally curtailed export outlets for farm products, which already were greatly depleted by import restrictions arising out of the war. Although increased demand from Great Britain has more than offset the loss of continental markets for industrial products, the net influence is not in favor of higher commodity prices within the United States. Prices of many internationally traded raw materials are adversely affected by the interruption of normal world trade. Competition from other surplus-producing nations for the limited markets is likely to continue very severe. If the European war should be terminated before the end of 1941, the lack of purchasing power on the part of countries which have been involved, together with other unfavorable conditions, indicates that the United States is not likely to recover soon any large part of its foreign trade lost in recent years. These conditions will tend to hold down United States prices of many commodities which enter into international trade and are affected by world conditions.

Another influence tending to hold down price advances in 1941 is the fact that prices of several important agricultural commodities have been supported considerably above competitive supply and demand levels by the agricultural programs. A considerable increase in demand would be necessary in order to lift prices much above these support levels. Unlike the conditions prevailing during the World War, there is no likelihood of any general shortage of agricultural commodities, either in this country or in other parts of the world except the blockaded countries of Europe. Thus, the situation for agricultural commodities, which make up an important part of the general price level, is not favorable to any wartime price inflation.

Finally, the Federal Government is committed to a policy of preventing run-away commodity prices. The recent experience of Great Britain shows that even drastic Government controls may not prevent substantial price increases, but the present attitude of the Government toward unjustified price advances can be made partially effective, and will contribute to holding down increases in the prices of some commodities which otherwise would occur.

Summary

The net result of these conflicting forces is likely to be material price increases for some industrial products, and for agricultural commodities directly influenced by changes in consumer purchasing power and which are not now receiving material support from the agricultural programs. Taking into account the probable price movements in the different groups of commodities and

their relative importance, the outlook is for a significant but not "inflationary" increase in the general level of wholesale prices of all commodities.

FARM PRICES AND INCOME

Cash income from farm marketings is expected to be higher in 1941 than in 1940, because of prospective increases in prices of a number of farm products, but this increase in cash income will be partly offset by higher production costs. The increase in cash income from livestock and livestock products is expected to be more pronounced than the increase in income from crops.

The increase in prices received by farmers in 1941 over 1940 will be a result of improvement in consumer incomes and demand for farm products, and a rise in the general level of wholesale prices. The increase in consumer purchasing power will affect especially the demand for those commodities which are consumed almost entirely in domestic markets, such as meats, dairy and poultry products, some fruits and vegetables. The prices of those commodities which are largely dependent on world markets, or which are being supported by Government loan programs, are not likely to be greatly different in 1941 than in 1940. Prospective price trends for these different groups of farm products indicate that the general level of farm prices in 1941 will be moderately higher than in 1940, but no pronounced price changes are in prospect unless weather conditions should result in crop production next year being much above or below average.

The trend of farm income is expected to be similar to the trend of farm prices, since agricultural production probably will be about the same as or only slightly smaller than in 1940. Both the production and prices of dairy products are expected to average somewhat higher in 1941. The prospective decline in hog production will be offset at least in part by increased sales of other meat animals, and the favorable influence of rising consumer incomes upon the prices of meats and livestock is expected to continue through 1941. Present prospects are for more nearly normal supplies of poultry products in 1941, and with increased consumer demand there should be an increase in farm income from these products. Improvement in the income from crops appears most likely for vegetables and for certain fruits which are consumed largely in the domestic markets. Income from grains, cotton and tobacco will be restricted by relatively large carry-overs and small export outlets, but will be supported by the loan programs.

The prospective increase in farm income in 1941 will be partly offset by higher production costs. The general level of prices of commodities and services used in farm production probably will average higher in 1941 than in 1940, because of increased demands for materials and labor arising from the defense program and the indicated improvement in general

industrial activity. Prices of farm machinery, automobiles and building materials probably will be among those higher in 1941 than in 1940. Recent moderate advances in prices of fertilizer materials may be reflected in higher retail prices for fertilizer used in 1941 production. The supply of workers available for farm work is expected to be smaller than in 1940 because of the increase in city employment opportunities and in the armed forces of the country, and farm wage rates probably will be higher than in 1940. Despite these increases in prices paid by farmers, it seems likely that the ratio of prices received by farmers to prices paid will be higher in 1941 than in 1940, and that the purchasing power represented by farm income will be somewhat greater.

ECONOMIC TRENDS AFFECTING AGRICULTURE

INDEX NUMBERS: INDICATED BASE PERIOD = 100

YEAR AND MONTH	INDUS- TRIAL PRO- DUCTION ¹	CON- STRUC- TION CON- TRACTS AWARDED ¹	FACTORY EMPLOY- MENT ²	FAC- TORY PAY- ROLLS ²	INCOME OF IN- DUSTRIAL WORKERS ³	VOLUME OF AGRI- CULTURAL EXPORTS ⁴	WHOLE- SALE PRICES OF ALL COMMOD- ITIES ⁵	RETAIL FOOD PRICES ⁶	PRICES RE- CEIVED BY FARMERS ⁷	PRICES PAID BY FARM- ERS	RATIO OF PRICES RECEIVED TO PRICES PAID	CASH INCOME FROM FARM MARK- ETINGS ⁸
BASE PERIOD	1935-39	1923-25	1923-25	1923-25	1924-29	1910-14	1910-14	1913	1910-14	1910-14	1910-14	1924-29
1929	110	117	106	110	107	107	139	163	146	153	95	104
1930	91	92	92	89	88	82	126	158	126	145	87	83
1931	75	63	78	68	67	88	107	130	87	124	70	58
1932	58	28	66	47	46	94	95	108	65	107	61	44
1933	69	25	73	50	48	85	96	105	70	109	64	49
1934	75	32	86	64	61	66	109	117	90	123	73	58
1935	87	37	91	74	69	61	117	126	108	125	86	65
1936	103	55	99	86	80	55	118	127	114	124	92	76
1937	113	59	109	102	94	65	126	132	121	130	93	81
1938	88	64	90	78	73	75	115	122	95	122	78	71
1939	108	72	97	91	83	65	113	119	93	121	77	72
1939-												
Jan	102	86	95	87	80	61	112	120	94	120	78	76
Feb	101	73	94	86	79	66	112	119	92	120	77	73
Mar	101	69	94	85	79	69	112	118	91	120	76	72
Apr	97	67	94	84	75	55	111	118	89	120	74	68
May	97	63	93	84	75	62	111	118	90	120	75	70
June	102	63	94	86	80	46	110	117	89	120	74	64
July	104	67	95	87	80	51	110	118	89	120	74	63
Aug	104	73	96	90	83	63	109	117	88	119	74	66
Sept	113	73	98	93	86	81	115	123	98	122	80	74
Oct	121	76	101	100	91	82	116	122	97	122	80	76
Nov	124	83	103	103	93	56	116	121	97	122	80	76
Dec	126	86	105	104	93	75	116	119	96	122	79	79
1940-												
Jan	122	75	104	102	93	105	116	119	99	122	81	79
Feb	116	63	102	98	89	104	115	121	101	122	83	84
Mar	112	62	100	95	87	68	114	120	97	123	79	76
Apr	111	64	99	95	86	61	115	120	98	123	80	82
May	114	64	99	95	87	47	114	121	98	123	80	80
June	121	74	100	98	89	44	113	123	95	123	77	70
July	121	85	101	100	91	47	113	122	95	122	78	71
Aug ⁹	122	92	104	104	94	32	113	120	96	122	79	70
Sept ⁹	124						114	122	97	122	80	

¹Federal Reserve Board, adjusted for seasonal variation Industrial production revised August 1940

²Bureau of Labor Statistics, adjusted for seasonal variation (employment adjusted by Federal Reserve and payrolls by Bureau of Agricultural Economics)

³Adjusted for seasonal variation Includes factory, railroad, and mining employees

⁴Foreign Agricultural Relations, July 1909-June 1914 = 100, adjusted for seasonal variation

⁵Bureau of Labor Statistics, 1926 = 100, converted to 1910-14 = 100

⁶Bureau of Labor Statistics, 1935-39 = 100, converted to 1913 = 100 Revised series beginning 1935

⁷August 1909-July 1914 = 100

⁸Adjusted for seasonal variation Revised March 1940

⁹Preliminary

Note: In comparing trends between industrial production and industrial workers' income, as indicated by the above index numbers, notice should be taken of the different base periods used, and of the fact that income of railroad workers, as well as incomes of mining and factory workers, is included in the index of industrial workers' income, whereas the industrial production index is based on mining and manufacturing only. Similar precautions are necessary in comparing trends between industrial production and factory employment and payrolls. Another consideration of importance is that the production index is based on volume, whereas the income indexes are affected by changes in wage rates as well as by time worked. In comparing monthly indexes it is important to keep in mind the fact that there is

